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AICPA *Washington Report*

March 17, 1980, Volume IX, Issue 3

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COUNCIL ON WAGE AND PRICE STABILITY

A Price Advisory Committee interim report (3/13/80) to Alfred Kahn, Advisor to the President on Inflation, has been released. The Price Advisory Committee was appointed by President Carter on 12/13/79 and has met in public session 4 times. The Report of the Committee, including some dissenting views, expresses a fear that "the performance of the system on the price side threatens a critical deterioration on wage restraint and hence a substantial loss of effectiveness on the part of the system as a whole." This Report is available from the CWPS, and for additional information call 202/456-6756.

DEFENSE, DEPARTMENT OF

Serious concern over the Vinson Trammell Act was expressed by Donald Grenough, Chairman of the Federal Acquisition Subcommittee of the AICPA who testified on 3/12/80 before the IRS. Mr. Grenough questioned the fairness and the reasonable expectation that compliance could be achieved retroactively to 9/30/76 as would be required. Among other problems with the Act, the threshold of \$10,000, triggering the Act, is unrealistically low, especially in light of inflation since the Act was passed in 1934. While the reporting burdens and associated costs will be borne by both large and small companies, many smaller companies not as experienced in government contract work will in many cases be forced to make changes in their cost accounting systems to accommodate the Act. Mr. Grenough expressed the belief that the IRS should act to conform allowable costs to those recorded under the contractor's regular accounting system, that is used for financial reporting so long as those types of expenses were allowable for Federal income tax purposes. He also suggested that those allowable costs then be allocated among contracts, consistent with Cost Accounting Standards Board (CASB) promulgations and Section 15 of the Defense Acquisition Regulations (DAR) only when contractual terms require compliance with these cost regulations. When not specifically required to use the referenced regulations in contracts covered by the Act, allowable costs should be allocated through the use of the companies customary method of cost accounting so long as such a method is rational, systematic and consistently applied. Other witnesses noted problems including the difficulty of reconstructing records back to 9/30/76, the costs of developing new cost accounting systems and the general feeling that Act considerations would require many small contractors to seriously review contracts and perhaps turn away defense contracts too marginal under the profit limitations to warrant conforming to the regulations.

FEDERAL RESERVE BOARD

A compromise to tighten the Federal Reserve's grip on the money supply by extending reserve requirements to all depository financial institutions is the major feature of legislation crafted by House and Senate conferees. The measure, HR 4986, would permanently authorize on a nationwide basis NOW accounts, automatic transfer accounts, and remote service units operating under a temporary law due to expire 3/31/80. The conference agreement calls for reserves on transactions deposits at a rate of 12 percent, with the FRB given authority to vary the rate between 8 and 14 percent. The FRB would also have the authority to levy

a supplemental reserve requirement on which it would have to pay interest. Another significant dimension of the bill is a six year phase out of Regulation Q interest rate ceilings. The measure would place rate-setting authority on a five-member committee during the phase out. The committee is directed to increase the limits by a least 1/4 percent within 18 months if possible and by an additional 1/2 percent in the succeeding 18 months. For the three years preceding expiration of controls, the committee would be urged to raise the limits by 1/2 percent each year.

SECURITIES AND EXCHANGE COMMISSION

Ratio of earnings to fixed charges is the subject of an SEC advance notice of proposed rulemaking (3/14/80 Fed. Reg., pp.16498-500). The SEC is requesting comments on whether the current requirement to present historical and pro forma ratios of earnings to fixed charges in certain filings such as Form S-1, S-11, 10 and 10K, should be retained or deleted. Additionally, it is requesting comments on specified concerns with the calculation of the ratio where retention is recommended. Comments should be submitted to the SEC, 500 North Capitol St., Washington, D.C. 20549, by 5/15/80. For additional information contact: Rita Gunter at 202/272-2133.

An amendment to recordkeeping requirements under Rule 17a-4 of the Securities Exchange Act has been proposed recently by the Commission. Presently, there is no Commission rule which governs the furnishing of copies of the records of brokers and dealers to Commission representatives. Despite the statutory authority of the Commission, some dealers and brokers have refused to supply such copies when requested by the Commission. Therefore, the proposal would clarify the authority of the Commission staff to receive copies of the documents required to be made or preserved by Rules 17a-3 or 17a-4. Comments are sought by 4/18/80 and should refer to File No. S7-825. For further information contact Joann Zuercher at 202/272-3114.

SMALL BUSINESS ADMINISTRATION

Small business will become "smaller" if the recently proposed changes in SBA Small Business Size Standards occur as a part of SBA rulemaking. The SBA has published (3/10/80 Fed. Reg., pp.15442-53) an advance notice of proposed rulemaking which will affect approximately 700 industry groups. The new standards could affect or eliminate the eligibility of approximately 150,000 firms who participate in Federal set-aside programs, or receive low-interest loan guarantees, and other preferential treatment reserved for small business. Ninety-five percent of U.S. business will still be considered "small". Accounting, auditing, and bookkeeping services, SBA's "Miscellaneous Services" category, will now define "small" as 25 or fewer employees. This classification will include all employees on the payroll, professional or clerical, and encompasses part-time, temporary, and employees of foreign affiliates. The actual employment calculation is an average number of employees for each of the pay periods for the preceding 12 months. The SBA rationale rests with the assumption that industry groups characterized by sufficient competition and ease of entry for new firms do not require nor provide "justification for SBA intervention." According to earlier SBA estimates, "accounting" services were defined on the basis of annual revenues. In 1975, the SBA determined that "small" for the profession would be defined as \$2 million in gross revenues. It was

anticipated that when proposing a new size standard, the SBA would consider the effects of inflation since 1975 and move the standard higher, perhaps to \$3 or \$4 million in annual revenues. Instead, the SBA has in effect lowered the standard, i.e. 25 employees roughly equates to annual revenues of \$1 million, according to SBA estimates. Regional SBA hearings will soon be announced. Concurrently, the House Small Business Subcommittee is planning hearings which will, among other matters, consider the new SBA proposals. No dates have yet been set. The recently concluded White House Conference on Small Business was inconclusive with respect to a position on small business size standards but Administration criticism of the new standards as unfair to some small business groups seems certain to occur. SBA has requested written comments be submitted by 5/9/80 to Kaleel C. Skerik, SBA, 1441 L Street, N.W., Washington, D.C. 20416. For further information, contact Mr. Skerik at 202/653-6373.

In a related matter, Senate Majority Leader Robert Byrd (D-WVa) announced the formation of a task force on small business programs and appointed Sen. Gaylord Nelson (D-Wis) as chairman. Sen. Nelson is chairman of the Senate Small Business Committee. Sens. Byrd and Nelson said the possible reforms could include such items as taxes and capital formation; regulatory reform; paperwork reduction; patent policy; R&D; anti-inflation policy; export stimulus, and "an in-depth look at the way the Small Business Administration is doing its job." The idea for the task force, according to Sens. Byrd and Nelson, grew out of a recent White House Conference on Small Business, where 1600 delegates representing approximately 14 million businessmen and women drew up a list of 60 recommendations.

TREASURY, DEPARTMENT OF

Reductions in the value of blockage and similar factors have recently been proposed by the IRS (see the 3/12/80 Fed. Reg., pp.15945-6). The proposals relate to the use of blockage in determining the value of private foundations' noncharitable assets which consist of listed securities for determining the amount foundations must distribute annually for charitable purposes. The regulations would provide foundation managers with the guidance needed to comply with the Tax Reform Act of 1976 and would affect all private foundations that hold listed securities for which reductions in value due to blockage or related factors are appropriate. The amendments are effective for taxable years beginning after 12/31/75. Comments are sought by 5/12/80. For further information contact David Dickinson at 202/566-3218.

Howard T. Martin has been appointed director of the Appeals Division of the IRS National Office. He succeeds Roydell S. Rosfeld, who retired. Martin will oversee the IRS administrative appeals system, which is responsible for resolving tax controversies in a fair and impartial manner and at the least expense to taxpayers. Martin, who has been with the IRS since 1956, is a CPA and a member of the American Institute of Certified Public Accountants.

SPECIAL: FEDERAL BAR SEEKING VOLUNTEER CPA'S

The Political Campaign and Election Law Committee of the Federal Bar Association is looking for CPA's willing to volunteer as affiliates with the Committee. According to the Bar, it is interested in finding volunteers willing to serve on: The Program Subcommittee; the Legislative Subcommittee; and the Newsletter Subcommittee. For further information contact: Stephen A. Sharp, Esq., 1666 K Street, N.W. Washington, D.C. 20006.

SPECIAL: CHAMBER OF COMMERCE SPONSORS CONFERENCE

The U.S. Chamber of Commerce is sponsoring a one-day conference: "U.S. Service Industries and Global Markets; The 1980's; Time for a National Strategy" at the Mayflower Hotel, 4/15/80. The Conference will address the outlook for international services in the 1980's, service trade barriers, and service industry initiatives. Speakers will include foreign and U.S. representatives. The luncheon speaker will be Sen. Daniel Inouye (D-HI). Chamber International Service Industry Committees and other interested parties wishing to participate should contact the Chamber prior to 3/20/80. Conference registration fee for ISIC members is \$100 and \$150 for non-members.

For additional information contact:
Gina Rosasco, Jim Kovakas, Nick Nichols
or Teresa Travers
202/872-8190

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